

Message Text

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44

ACTION ARA-10

INFO OCT-01 ISO-00 AGR-10 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04 TAR-01

TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01 /104 W

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R 191505Z JAN 76

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 8429

INFO AMEMBASSY QUITO

AMEMBASSY SANTIAGO

UNCLAS SECTION 1 OF 2 LIMA 0524

EO 11652: N/A

TAGS: EGEN, EINV, PFOR, PE, EALR

SUBJECT: THE GOP'S PROGRAM OF ECONOMIC REACTIVATION
(OR AUSTERITY)

REF: LIMA -0457

1. SUMMARY: A LARGE PACKAGE OF ECONOMIC AND FINANCIAL MEASURES WAS ANNOUNCED BY THE MINISTER OF ECONOMY AND FINANCE, LUIS BARUA CASTANEDA, ON JANUARY 12, 1976 (LIMA 0457). THESE MEASURES VARY IN CONCRETENESS WITH THE MORE CONCRETE MEASURES RELATED TO TAXES, LIMITATIONS ON GOVERNMENT SPENDING, PRICES OF FOOD AND PETROLEUM PRODUCTS, AND WAGES SOME 16 DECREES LAWS AND 23 SUPREME RESOLUTIONS WERE PUBLISHED ON JANUARY 10, 12 AND 13. THIS IS THE SECOND OF THREE CABLES REPORTING ON BARUA'S SPEECH. END SUMMARY.

2. THE MAJOR TAX LAW CHANGES AND A BRIEF DESCRIPTION OF THEM FOLLOW:

D.L. 21383 CONTINUES THE TEN PERCENT TAX ON REVALUATION OF FIXED ASSETS AND STATES PERCENTAGES TO BE APPLIED TO FIXED STRUCTURES AND TO MACHINERY AND EQUIPMENT. THE REVALUATION OF 1974
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PRICES IS OBLIGATORY FOR MOST PRIVATE COMMERCIAL AND INDUSTRIAL

FIRMS. PERCENTAGES TO BE APPLIED TO REVALUATION OF FIXED ASSETS
DEPEND UPON THE YEAR OF CONSTRUCTION OR ACQUISITION. FOR FIXED
STRUCTURES, THEY ARE 35 PERCENT FOR THOSE ACQUIRED IN 1970.
32 PERCENT FOR 1971, 24 PERCENT FOR 1972, AND 15 PERCENT FOR
1973. FOR MACHINERY AND EQUIPMENT THEY ARE 51 PERCENT FOR
1970, 51 PERCENT FOR 1971, 45 PERCENT FOR 1972, AND 24 PERCENT
FOR 1973. D.). 21386 INCREASES THE SCALE OF THE DIRECT TAX
ON PERSONAL
INCOMES FOR TAXABLE INCOMES IN EXCESS OF 500,000
SOLES PER YEAR. THE OLD RATES RAN FROM 42 PERCENT FOR TAXABLE
INCOME FROM 500,000 TO 700,000 SOLES TO 55 PERCENT FOR
TAXABLE INCOME IN EXCESS OF 5,000,000 SOLES. THE NEW RATES
RUN FROM 44 PERCENT FOR TAXABLE INCOME OF 500,000 TO 700,000
SOLES TO 65 PERCENT FOR TAXABLE INCOME IN EXCESS OF
5,000,000 SOLES. D.L. 21387 INCREASED THE RATES OF TAX ON
NET WORTH OF PRIVATE CORPORATIONS. THE RATE OF 0.6 PERCENT FOR
NET WORTH UP TO ONE MILLION SOLES REMAINS THE SAME. THE RATE
FOR NET WORTH FROM ONE TO THREE MILLION SOLES IS RAISED FROM
0.9 PERCENT TO 1.0 PERCENT. PREVIOUSLY, THE RATE FOR NET WORTH
IN EXCESS OF THREE MILLION SOLES WAS 1.2 PERCENT; THE NEW RATES
ARE 1.4 PERCENT FOR NET WORTH FROM THREE MILLION TO SIX MILLION
SOLES AND 1.8 PERCENT FOR NET WORTH IN EXCESS OF SIX MILLION
SOLES. D.L. 21381 BRINGS COOPERATIVES HAD BEEN EXEMPTED FROM
PAYING TAXES AS PRIVATE CORPORATIVES HAD BEEN EXEMPTED FROM
PAYING TAXES AS PRIVATE CORPORATIONS; NOW THEY MUST PAY SUCH
TAXES AS THE CORPORATE INCOME TAX, AND TAXES ON NET WORTH AND
PROPERTY.

3. MEASURES RELATED TO IMPORTS ARE AS FOLLOWS:

D.L. 21380 ELIMINATES THE IMPORTATION OF MAGAZINES ADVERSELY
AFFECTING THE MORAL STANDARDS OF THE PEOPLE AND THE INTERPRETA-
TION OF THESE STANDARDS DEPENDS UPON THE MINISTRY OF EDUCATION.
D.L. 21389 DECREASES BY 15 PERCENT THE IMPORTATION OF
NEWSPRINT (IN REGARD TO THE LEVEL OF 1975). D.L. 21388
DECREASES BY 30 PERCENT THE IMPORTATION OF ALCOHOLIC BEVERAGES
(IN REGARD TO THE LEVEL OF 1975). D.L. 21390 REQUIRES THAT ALL
IMPORTS WITHOUT EXCEPTION MUST OBTAIN LICENSES FROM THE
MINISTRY OF COMMERCE. PREVIOUSLY OTHER PUBLIC SECTOR ENTITIES
COULD GRANT IMPORT LICENSES. IN REGARD TO OTHER B/P MEASURES,
THE MINISTER STATED THAT COMMODITY IMPORTS WILL BE SUBJECT TO
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A PRIOR IMPORT LICENSE SYSTEM. (THE DETAILS AND OPERATIONAL
MODE OF THIS SYSTEM HAVE NOT YET BEEN MADE PUBLIC - SEE LIMA 378. THE
MINISTER ALSO ANNOUNCED THAT TAX REBATES FOR NON-TRADITIONAL
EXPORTS WOULD BE INCREASED BY UP TO FIVE PERCENTAGE POINTS.
HE ALSO ANNOUNCED THAT EXCHANGE REMITTANCES FOR ARTISTIC, SPORT,
AND CULTURAL PRESENTATIONS WOULD BE REDUCED. D.L. 21385 AND
D.L. 21384 AIM AT DECREASING THE SALE OF FOREIGN EXCHANGE FOR
THE FOREIGN TRAVEL OF PERUVIANS. D.L. 21385 CHANGES AND

INCREASES THE TAX ON THE FOREIGN EXCHANGE PURCHASED FOR TRAVEL ABROAD TO 30 PERCENT FOR BUSINESS AND TOURISM AND 15 PERCENT FOR ATTENDANCE AT INTERNATIONAL CONFERENCES AND 200 SOLES PER DAY TO DAYS OUTSIDE PERU. PREVIOUSLY THESE RATES WERE 20 PERCENT FOR BUSINESS, 15 PERCENT FOR TOURISM, AND 10 PERCENT FOR ATTENDANCE AT INTERNATIONAL CONFERENCES AND 50 SOLES PER DAY FOR DAYS OUTSIDE PERU. D.L. 21384 INCREASES THE CHARGE FOR PASSPORTS TO 2,000 SOLES (PREVIOUSLY 1,000 SOLES) AND 1,600 SOLES FOR PASSPORT RENEWAL.

4. MEASURES AFFECTING PUBLIC SECTOR ENTITIES ARE THE FOLLOWING:

D.L. 21382 BRINGS PUBLIC ENTERPRISES INTO THE CORPORATE INCOME TAX REGIME. PREVIOUSLY ONLY SOME PUBLIC SECTOR ENTERPRISES, SUCH AS PETROPERU, HAD TO PAY THE CORPORATE INCOME TAX. D.L. 21393 REDUCES THE CURRENT ACCOUNT BUDGET OF THE CENTRAL GOVERNMENT BY 5 PERCENT FOR THE 1975-76 BIENNIUM FOR A TOTAL REDUCTION OF 6.0 BILLION SOLES. THESE REDUCTIONS ARE STATED IN MILLIONS OF SOLES FOR EACH ENTITY OR MINISTRY AFFECTED AND BUDGET OFFICES ARE REQUIRED TO FORWARD PLANS FOR EFFECTING REDUCTIONS TO THE MINISTRY OF ECONOMY AND FINANCE WITHIN 15 DAYS. D.L. 21391 AND D.L. 21392 INCREASE THE PUBLIC SECTOR BUDGETS BY 44.3 BILLION SOLES AND 17.0 BILLION SOLES RESPECTIVELY. D.L. 21391 AUGMENTS REVENUES BY 15.1 BILLION SOLES IN EXTERNAL DEBT AND 26.8 BILLION SOLES IN OTHER (DOMESTIC) OPERATIONS AND THE INCREASED EXPENDITURES RELATE TO INVESTMENT PROGRAMS AND AGRARIAN REFORM PROJECTS. D.L. 21392 AUGMENTS REVENUES FROM INCREASED TAX RECEIPTS, AND (ACCORDING TO THE PREAMBLE OF THE D.L.) INCREASED EXPENDITURES RELATE TO INCREASED REMUNERATIONS.

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NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04 TAR-01

TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01 /104 W

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R 191505Z JAN 76
 FM AMEMBASSY LIMA
 TO SECSTATE WASHDC 8430
 INFO AMEMBASSY QUITO
 AMEMBASSY SANTIAGO

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5. THE MEASURES WHICH SPECIFICALLY DO NOT INCREASE
 GOVERNMENT REVENUES BUT DECREASE PRIVATE SECTOR INCOMES
 ARE AS FOLLOWS:

D.L. 21379 PROHIBITS INCREASES IN HOUSE RENTS UNTIL THE LEY DE
 INQUILINATO (LAW OF RENTING) IS PROMULGATED. D.L. 21394 SETS
 INCREASES IN WAGES (FURTHER DESCRIBED PARA 7) AND ALSO SETS
 MAXIMUM MONTHLY REMUNERATION AT 70,000 SOLES PER MONTH.
 FOR PUBLIC SECTOR EMPLOYEES THE LIMIT IS MANDATORY, AND WITHIN
 THE PRIVATE SECTOR FIRMS CANNOT TREAT AS COSTS AMOUNTS IN EXCESS
 FO THIS MAXIMUM.

6. MINISTER BARUA ANNOUNCED PRICE INCREASES FOR A LARGE
 NUMBER OF BASIC FOODSTUFFS AND PETROLEUM PRODUCTS. PETROLEUM
 PRODUCTS PRICES WERE INCREASED AS FOLLOWS:

	SOLES PER GALLON		PERCENT
	TO JAN 12	NEW PRICE	INCREASE
95 OCTANE GASOLINE	30.0	42.0	40
84 OCTANE GASOLINE	15.0	23.0	53
KEROSENE	5.5	6.2	13
DIESEL	5.4	6.0	11
RESIDUAL 5	4.1	5.5	34

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RESIDUAL 6	3.7	5.0	35
RIQUID GAS (LPG)	5.8	12.0	106

THE PRICES OF GASOLINE REFER TO RETAIL SALE; ALL OTHER PETROLEUM
 PRODUCTS REFER TO PLANT OR WHOLESALE PRICES. THE NEW RETAIL
 PRICE FOR LIQUID GAS IS 15.8 SOLES PER GALLON, 115 SOLES PER 24
 POUND CYLINDER AND 420 SOLES PER 100 POUND CYLINDER IN LIMA-
 CALLAO AREA. THE INCREASE IN THE PRICES OF PETROLEUM PRODUCTS
 AUGMENTS PETROPERU'S INCOME BY 5,966 MILLION SOLES, I.E. AN
 INCREASE OF 43 PERCENT. TARIFFS FOR BUS, RAIL, AND AIR TRANSPORT
 WERE ALSO INCREASED. THE PRICES OF A BROAD ARRAY OF BASIC
 FOODSTUFFS WERE INCREASED, INCLUDING RICE, IMPORTED WHEAT, BEEF,
 MUTTON, CHECKEN, LIQUID MILK (BUT NOT CANNED), BUTTER, SUGAR,
 MARGARINES, AND BREAD. THE PERCENTAGE INCREASES FO FOOD
 ITEMS, TRANSPORTATION, AND FUEL RANGE FROM 10 TO 33 PERCENT.
 THE MINISTER STATED THAT FOR THE AVERAGE WORKER REPRESENTED
 BY THE LIMA CONSUMER PRICE INDEX THESE PRICES INCREASES
 WOULD REQUIRE THE EXPENDITURES OF AN ADDITIONAL 725 SOLES,
 I.E. A 13 PERCENT INCREASE.

7. IN ORDER TO COMPENSATE FOR PRICE HIKES, THE GOP DECREED AN AUTOMATIC ACROSS-THE-BOARD WAGE INCREASE RETROACTIVE TO JANUARY 1. THE INCREASE IS 840 SOLES PER MONTH OR 28 SOLES PER DAY, AMOUNTING TO ABOUT 15 PERCENT OF THE AVERAGE WAGE DETERMINED BY MINISTRY OF LABOR. IN ADDITION TO THE AUTOMATIC INCREASE OF 840 SOLES PER MONTH, ECONOMIC MEASURES PROVIDE FOR WAGE INCREASES GAINED THROUGH COLLECTIVE BARGAINING. THESE ARE TO RANGE FROM NO LESS THAN 450 SOLES PER MONTH OR 15 SOLES PER DAY TO NO MORE THAN 1,650 SOLES PER MONTH OR 55 SOLES PER DAY, DEPENDING UPON THE UNION BARGAINING POWER AND THE ECONOMIC CONDITION OF THE FIRM. ALL CONTRACTS SIGNED BETWEEN JANUARY 1 AND DECEMBER 31, 1976, INCLUDING CONTRACTS CURRENTLY UNDER NEGOTIATION, ARE SUBJECT TO LIMITS STIPULATED IN NEW ECONOMIC DECREES. ANY CONTRACT NOT IN ACCORDANCE WITH THESE MEASURES IS NULL AND VOID. THE DECREE ON COLLECTIVE BARGAINING ALSO STIPULATES THAT LABOR DEMANDS RELATING TO WORKING CONDITIONS ARE SUSPENDED FOR THE ONE-YEAR PERIOD OF THE DECREE.

8. THE MINISTER NOTED THE CHANGES IN CENTRAL GOVERNMENT'S FISCAL SITUATION FOR THE 1975-1976 BIENNium RESULTING FROM THESE MEASURES AS FOLLOWS IN MILLIONS OF SOLES:

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	BUDGETED	IMPACT OF	NEW
	MEASURES	BUDGET	
1. CURRENT REVENUES	186,326	&5,000	191,326
TAX REVENUES	(164,669)	(5,000)	(169,669)
2. CURRENT EXPENDITURES	201,448	-14,196	187,252
3. CURRENT SURPLUS	-15,122	&19,196	&4,074
4. CAPITAL EXPENDITURES	62,736	--	62,736
5. AMORTIZATION	26,948	--	26,948
6. DEFICIT	104,806	&19,196	85,610
A. INTERNAL	81,510		62,314
B. EXTERNAL	23,296		23,296
7. TAX PRESSURE (PERCENT OF GDP)	12.4		12.8
8. INTERNAL FINANCING AS PERCENT OF TOTAL EXPENDITURES	28.0		22.5

IN EFFECT, THE INCREASE IN TAX BASES AND RATES IS EXPECTED TO PRODUCE 5 BILLION SOLES AND THE REDUCTION IN CURRENT EXPENDITURES (THROUGH REDUCTION IN SUBSIDIES AND REDUCED GOVERNMENT SPENDING) IS EXPECTED TO YIELD 14.2 BILLION SOLES FOR A 19.2 BILLION SOLES INCREASE IN THE CURRENT SURPLUS. THIS INCREASE IN CURRENT SURPLUS REDUCES THE DOMESTICALLY-FINANCING DEFICIT FROM 81.5 BILLION REDUCES THE DOMESTICALLY-FINANCED DEFICIT FROM 81.5 BILLION SOLES TO 62.3 BILLION SOLES. THE CENTRAL GOVERNMENT'S INVESTMENT PROGRAM AND PROGRAMMED USE OF EXTERNAL CREDITS IS NOT ALTERED.

9. IN REGARD TO EMPLOYMENT AND ECONOMIC PRODUCTION, THE MINISTER NOTED THE FOLLOWING GENERAL LINES OF ACTION:

(A) IMPROVEMENT OF THE REGIONAL SELECTIVE CREDIT
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SYSTEM,

(B) IMPROVEMENT OF AGRICULTURAL EXTENSION SERVICES,
(C) IMPROVEMENT IN THE FINANCIAL SYSTEM FOR SOCIAL PROPERTY, AND THE SPECIFIC PROMISE OF 6.0 BILLION SOLES.

(D) A PROMOTIONAL LAW FOR SMALL PRIVATE BUSINESSES, AND

(E) A PROMOTIONAL LAW FOR SMALL AND MEDIUM MINING ENTERPRISES.

10. ANALYSIS OF GOP ECONOMIC PROGRAM FOLLOWS IN SEPTEMBER.
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Message Attributes

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Concepts: ECONOMIC CONDITIONS, SPEECHES, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
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Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
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Document Number: 1976LIMA00524
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
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Film Number: D760019-1100
From: LIMA
Handling Restrictions: n/a
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Legacy Key: link1976/newtext/t19760145/aaaabnly.tel
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